

QUALITY OF AID MANAGEMENT FOR MICROFINANCE (QAMM) INDEX May 2007

The fundamental premise of CGAP’s work on improving the quality of aid is that it is the responsibility of development agencies to get their own house in order to engage effectively in microfinance.¹ In spite of significant funding and broad consensus on good practice microfinance principles, many donor programs do not follow good practice and consequently do not reach their objectives.

Clearly, many factors influence the impact of microfinance programs at the country-level such as local politics, governance and regulation, macroeconomic conditions, and the ability of development agencies to work together and engage with local stakeholders. These factors have been the focus of much of the literature on the quality of aid but there has been little discussion about the supply side of the equation: the quality of management systems of development agencies themselves. As one donor staff put it, “Change starts at home.”

CGAP’s 17 Microfinance Donor Peer Reviews and 5 Country-level Effectiveness and Accountability Reviews (CLEARs) have been well-received and, in many cases, prompted concrete changes. This learning is summarized in the *Aid Effectiveness Star*—a framework of five essential elements for improving the way development agencies work (see Figure 1):

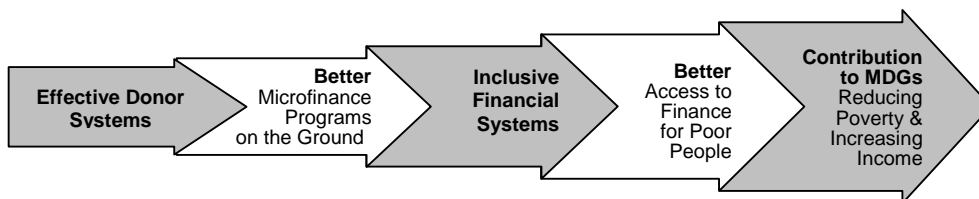
Figure 1: Aid Effectiveness Star



- **Strategic Clarity:** a common vision of microfinance aligned with good practice that is internalized by staff and translated in the field;
- **Staff Capacity:** sufficient staff with microfinance technical expertise relative to the size and composition of the microfinance portfolio to ensure quality of design, implementation, and monitoring of programs;
- **Accountability for Results:** systems in place that ensure the transparency and performance-based management of microfinance programs and components;
- **Knowledge Management:** a culture that promotes the creation, dissemination, and incorporation of learning from agencies’ own and others’ experience; and
- **Appropriate Instruments:** flexible instruments that are adapted to market needs and used in a manner that complements the private sector and local capital markets.

These elements have been discussed, refined, endorsed, and reconfirmed time and time again by development agencies. Their relevance is clear: improving these elements creates an environment conducive to designing better microfinance programs (and other types of programs as well). Improving the lives of poor people is ultimately what matters, and achieving this goal requires many ingredients. However, “quality at entry” is a necessary and positive indicator of successful performance along the rest of the continuum (see Figure 2). Only when donors are set up to provide high-quality microfinance programming can their impact begin to live up to the high expectations of the Millennium Development Goals (MDGs).

Figure 2: Quality of Aid for Microfinance Continuum



Quality of Aid Management for Microfinance Index

The *Quality of Aid Management for Microfinance Index* aims to help agencies determine where change is needed to put in place systems, policies, and procedures that increase effectiveness. It also seeks to provide

¹ The term “microfinance” is used to describe pro-poor financial services in the context of the vision of building financial systems for the poor. For many agencies, their work on this topic may be part of wider issues of financial sector development and access to finance for SMEs and others as well.



incentives for agencies to improve their internal systems and to influence the international debate on the quality of aid. Having a significant quorum of development agencies adhere to the *Index* is an important step for improved accountability and transparency.

CGAP and its partners have developed the *Index* to measure whether development agencies are set up for effective support of microfinance. A circle of advisors—including experts on indices like the Commitment to Development Index of the Center for Global Development, aid effectiveness professionals (OECD staff and others), and microfinance specialists—is providing extensive counsel on the *Index*.

Though the *Index* aims to measure effectiveness in microfinance, it has been carefully designed to be relevant to other sectors of development. Improvements on internal systems can rarely be isolated for just one area of work, so progress on the *Index* would likely benefit all of an agency’s operations.

The basis for the *Index* comes from the *Aid Effectiveness Star* and the ratings CGAP developed as part of the Microfinance Donor Peer Reviews. Ideally, the *Index* would capture every aspect of the *Star*, including the more intangible and subjective ones. This, however, is not feasible. Instead, the *Index* focuses on indicators within the *Aid Effectiveness Star* that are objectively measurable, and it relies on information that is accessible and verifiable without placing undue burden on the agency. CGAP’s work has shown that agencies that have achieved these minimum indicators are focused on improving their internal systems. Therefore, these indicators are useful proxies for the complete *Star* in determining how an agency is performing under each element.

Detailed Indicators and Scoring for the Index

The *Index* scores will be determined by a Review Board based on the evaluation of data reported by agencies. Agencies will provide key documents and information such as policies, procedures, reporting and portfolio data. The Review Board will be composed of CGAP and external experts. An agency’s final score is based on 20 indicators, each worth between 5 points for a maximum score of 100. The Review Board will score on a scale ranging from 5 to 0, with 5 points for full achievement of the indicator and 0 points if the indicator is not achieved at all. In order to be as objective as possible, the Review Board must reach consensus on the score for each indicator. Agencies will be able to see their scores before publishing.

CGAP’s members are quite diverse, ranging from multilateral organizations to regional development banks, international financial institutions, bi-laterals and private foundations. They also differ in their approach to how they support microfinance. Although CGAP recognizes the substantial differences between agencies, the *Index* is designed to measure minimum requirements for working in microfinance that are relevant across agency type and approach to microfinance. Following the first round of results, a comparison of scores by type of agency will be conducted to determine the implications of applying the same indicators to all agencies.

Reports for each agency will be composed of a radar-style graph (see Figure 3) and a short summary of results. A global report will also summarize the results in a comparative graph (see Figure 4) and make observations about general performance and trends.

Figure 3: Individual Agency

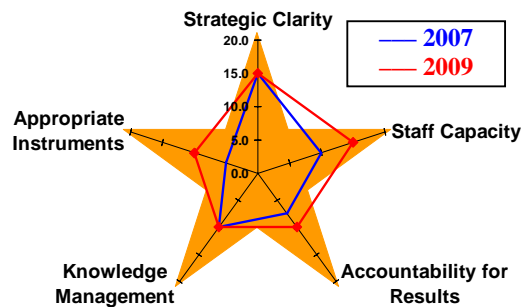
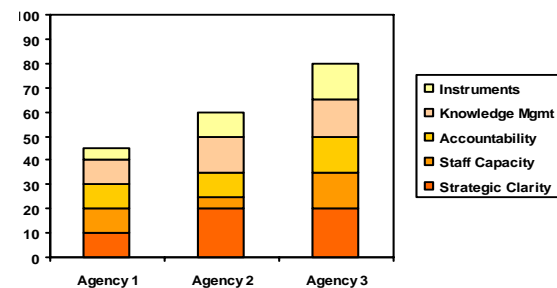


Figure 4: Global Results



Events to announce the results are tentatively planned with the Center for Global Development in Washington, DC and OECD in Paris. Following the first round of data collection, CGAP will facilitate an assessment of whether the *Index* is a useful and cost-effective tool. If positive, it is expected that the *Index* would be published every two years to allow comparison and show improvements over time.